

Request for Proposals For  
Development of Cash Working Capital Requirements by Means of Lead-Lag  
Studies for Fitchburg Gas and Electric Light Company

**1.0 INTRODUCTION**

**1.1 Company Background**

Fitchburg Gas and Electric Light Company (hereafter referred to as Fitchburg or the Company) is a wholly-owned subsidiary of Unitil Corporation and provides electric distribution and natural gas distribution service to retail consumers in North-Central Massachusetts. Unitil Corporation's subsidiaries consist of Fitchburg and two other retail electric distribution utilities serving New Hampshire, a wholesale electric power utility, three energy brokering companies, a real estate management company, and Unitil Service Corp., the Unitil system's service company. Unitil Service Corp. provides, at cost, centralized management, administrative, accounting, financial, engineering, information systems, regulatory, planning, procurement, and other services to the Unitil system companies, including Fitchburg. Fitchburg is subject to the regulatory authority of the Massachusetts Department of Telecommunications and Energy (M.D.T.E.) and the work product of this Request for Proposals (RFP) are expected to be provided to the M.D.T.E. in a regulatory filing by Fitchburg in calendar year 2002.

**1.2 General**

This RFP by Fitchburg requests binding proposals from qualified bidders (hereafter referred to as bidder, consultant, or vendor) to conduct, present, and support two cash working capital requirements developed by means of separate lead-lag studies for the electric and gas divisions of the Company. The Company envisions the project to be conducted in three distinct phases:

1. Conduct electric and gas lead-lag studies,
2. Respond to formal written data requests, and
3. Present direct and/or rebuttal testimony, as required.

In the first phase, one study shall be provided for the cash working capital requirements of the Company's natural gas distribution operations and a second separate study shall be provided for the cash working capital requirements of the Company's electric operations. The two lead-lag studies and the resulting cash working capital requirements are expected to be used in regulatory filings by Fitchburg. The lead-lag studies shall address the lead and lag days related to various operating and maintenance expenses, payroll related expenses, pensions and benefits, income taxes, other taxes, and capital cost items. The lead-lag studies will not address lead or lag days related to revenue, cost of gas, or purchased power. The lead or lag days related to revenue, cost of gas,

and purchased power will be provided by the Company and will be made available to the consultant prior to the commencement of the work in this engagement.

The consultant shall provide to Fitchburg all supporting workpapers, files, electronic media, and other materials utilized or otherwise relied upon in the conduct of the lead-lag study. In this manner, the Company may be able to address many of the information requests typical of a regulatory proceeding without the need for additional assistance from the consultant.

In phase two, the consultant shall be responsible for preparing responses to requests for information submitted by other parties as assigned to the bidder by the Company. This phase is an optional phase in which the scope and extent of consultant involvement shall be determined exclusively by the Company. The costs of preparing responses to requests for information should not be included in the bidder's cost estimates for this engagement.

In the third phase, at the sole discretion of the Company, the consultant may be requested to prepare and present testimony and exhibits on behalf of the Company in regulatory proceedings in which the lead-lag studies are employed. Similar to the second phase described above, this testimony phase is an optional phase in which the scope and extent of consultant involvement shall be determined exclusively by the Company. The costs of preparing and submitting direct testimony on behalf of the Company should not be included in the bidder's cost estimates for this current first phase engagement.

### 1.3 Submission of Proposals and Award of Bids

Bidders shall provide ten (10) copies of their proposal. Each proposal shall provide the following information, at a minimum, organized and presented as described in Section 2.0 RFP REQUIREMENTS below. Fitchburg is not obligated to accept in whole or in part any of the bids provided to it in response to this RFP. Each bid shall be accompanied by a letter stating that the bid is to remain effective for a period of not less than 45 days from the date the bids are due. Bids are due at the prescribed address by no later than 3:00 p.m. Eastern Standard Time, Monday, March 18, 2002. Bids shall be provided in sealed envelopes bearing the notation

## **FITCHBURG GAS AND ELECTRIC LIGHT COMPANY LEAD-LAG STUDY PROPOSAL**

at the following address:

Attn: Mr. Charles J. Kershaw, Jr.  
Fitchburg Gas and Electric Light Company  
6 Liberty Lane West  
Hampton, NH 03842-1720

Bids submitted after the due date shall not be considered and shall be returned unopened to the bidder. The Company will undertake and complete its evaluation of bids by Thursday, March 28, 2002, and will notify all bidders whether or not the bidder was successful on that date. The Company anticipates that work on the first phase of this project shall commence by Thursday, April 18, 2002, and shall be completed by Friday, May 31, 2002.

#### 1.4 Company Contact

If you have questions regarding this RFP or require further information or assistance to help you prepare your response to this RFP, please contact Mr. Charles J. Kershaw, Jr. at (603)773-6496 during normal business hours or e-mail your inquiries to Mr. Kershaw at [kershaw@unitil.com](mailto:kershaw@unitil.com).

### 2.0 RFP REQUIREMENTS

#### 2.1 Bidder Information

Provide the following information:

- (a) name of bidder,
- (b) mailing address of bidder,
- (c) name, title, telephone number, facsimile number, e-mail address, and mailing address of contact person for bidder,
- (d) type of business organization of bidder (e.g., corporation, partnership, sole proprietorship, etc.).
- (e) brief description of your organization.

#### 2.2 Cost Proposal

The bidder shall provide the total estimated dollar amount of proposal for each phase with the costs of consulting fees; travel, meals, and lodging expenses; and other costs separately identified. Consulting fees shall be identified by individual consultant and the number of anticipated billable hours and the hourly rate of each such individual consultant expected to be employed in this engagement shall be provided. Finally, the bidder shall provide a statement that the stated total dollar amount of the proposal shall remain as an offer for a period of not less than 45 days after the bid date that the bid is submitted.

#### 2.2 Project Personnel

Bidders shall provide the names, titles, and certain background information for each and every consultant or person who may be utilized in the conduct of this engagement. Such background information shall include, at a minimum, education and degrees of each consultant or person, summary of work experience, and any other relevant qualifications. Further, a complete resume of the proposed project manager shall be included.

### 2.3 Project Team Organization

Provide the name, title, telephone number, facsimile number, e-mail address, and mailing address of the bidder's proposed project manager or team leader. Identify the functions and duties to be undertaken in this engagement by each project personnel identified in Section 2.2 above. Describe how the various project team members report to one another and how effective and efficient project control will be maintained by the bidder. Identify the number of hours and billing rates that each of these personnel are anticipated to bill for each task identified.

### 2.4 Project Description

The bidder shall provide a short (less than one single spaced, 12 point font, page) description of the bidder's understanding of this project, including the objective of the project, the approach that the consultant will employ to address the issues raised in this project, the methodology the consultant will employ to carry out this project, and deliverables required for the successful completion of this engagement.

### 2.5 Time Line

Provide a detailed time line for conducting each task described in Section 2.7 below, including the estimated start date, estimated completion date, the relationship between the completion of each task to subsequent dependent tasks, and the estimated total number of hours required to complete each task. In preparing this schedule recognize that time is of the essence and schedules extending beyond 6 weeks are undesirable.

### 2.6 Previous Experience

Provide a description of previous projects and/or experience of your firm and the personnel in your proposed project team in performing similar projects involving conducting lead-lag studies and/or determination of cash working capital requirements. Please provide the names, titles, addresses, and telephone numbers of persons who are familiar with your work on these projects.

### 2.7 Work Plan

The Company's anticipated work plan is described in this section. Deviations from this work plan may be required by circumstances beyond the control of either the Company or the bidder. Any and all requests for deviations from this work plan by either the Company or the bidder shall be made in writing by the party requesting the deviation and approved by both parties prior to the consultant commencing with the work effort required by these deviations. The bidder shall advise the Company in writing of any anticipated changes in charges or fees resulting from such deviations.

Two separate lead-lag studies are required by this RFP to quantify the cash working capital requirements related to both the electric and the gas divisions of Fitchburg. The consultant shall undertake the necessary interviews, reviews, samples, research, and analyses to determine the number of leading and lagging days typically required by the Company for each component of cash working capital. At a minimum, the components of the cash working capital for which leading or lagging days are determined by the consultant shall include the following items:

- (a) Operation and Maintenance Expense Other than Payroll Related and Taxes (Other O&M). The Company anticipates that the consultant will develop for each operating division a statistically valid sample of test year vouchers sufficient to support the development of leading or lagging payment days. Fitchburg will provide the consultant with a listing of General Ledger expenditure transactions for calendar year 2001 from which the consultant will identify and designate the individual transactions that will be employed to determine the lead and lag days. The consultant will identify the individual transactions and the Company will make available and/or provide the expense vouchers, copies of invoices, and other information relating to the transaction. The consultant will be responsible for identifying and sampling only those transactions that are booked as expenses. Prepayments, capital expenditures, payments for materials and supplies inventories, reversing entries, and other expenditures that are not recorded as operation and maintenance expenses will be removed by the consultant from the sampled general ledger population of transactions and shall not be included in the sample.

Furthermore, the consultant shall address and provide a defensible approach to calculating the lead and lag days associated with each of the three types of expense transactions employed in the Company's general ledger. These types of transactions recording expenses consist of (i) direct payments (payments by Fitchburg directly to the vendor providing service), (ii) vendor bill-backs (payments made by Unitil Service Corp. (USC) to vendors for services provided jointly to Fitchburg and other affiliated companies of the Unitil system that are subsequently reimbursed by Fitchburg by means of payment of intercompany receivables), and (iii) USC bills (payments made by USC to vendors for services provided in common to Fitchburg and other affiliated companies of the Unitil system that are subsequently reimbursed by Fitchburg by means of the service charge from USC). The consultant's sampling methodology shall provide for both the electric and gas divisions the weighted average lead and lag days for each type of expense transaction and shall also identify and support the proportion of

expenses subject to each such type of transaction within calendar year 2001 Other O&M expenses.

As part of the bidder's response to this RFP, the consultant shall demonstrate a knowledge and understanding of general ledger transactions involving service company operations and affiliate transactions. The consultant shall provide a detailed description of the procedures that are anticipated to be employed to address the determination of lead and lag days for Other O&M expenses.

Furthermore, as in the case of all expenditures paid by check, the consultant shall take into consideration, support, and defend check float periods, where applicable, used in the calculation of lead and lag days. Finally, the consultant shall determine the collection lag and bill processing lag for such expenditures;

- (b) Payroll Expense. The Company's employees utilize both direct deposit and manual deposit of their payroll. Since each form of payroll expenditure has a distinctly different cash flow pattern, the consultant shall calculate the expense lead times of each payroll payment separately. Further, the consultant shall take into consideration such factors as the impact of weekends and holidays on payroll dates, the length of the payroll period, and payroll check float.
- (c) Pensions and Benefits. The consultant shall calculate the lead days relating to the various pensions and benefits provided by the Company, including OPEB's. These pensions and benefits may include, but are not necessarily limited to, such items as health insurance, dental insurance, prescription plans, thrift plans, productivity awards and/or bonuses, AD&D insurance, life insurance, long-term disability, retirement, vacation, sick leave, and other employee benefits of the Company;
- (d) Federal Income Taxes. For both the electric and gas divisions, the consultant will calculate the lead and lag days for Federal Income Taxes using both actual tax payments and scheduled tax payments dates and will render an opinion regarding the reasonableness of each methodology. With respect to tax payments relating to out-of-period adjustments, the consultant will provide a narrative addressing the reasonableness of including such out-of-period adjustments in the determination of the lead and lag days for the current year. The lead and lag days shall be calculated in such a manner as to permit the use of the lead and lag days for a proposed test year federal income tax amount at both the present and claimed rates of return;

- (e) State Income Taxes. For both the electric and gas divisions, the consultant will calculate the lead and lag days for State Income Taxes using actual tax payments and scheduled tax payments and will render an opinion regarding the reasonableness of each methodology. With respect to tax payments relating to out-of-period adjustments, the consultant will provide a narrative addressing the reasonableness of including such out-of-period adjustments in the determination of the lead and lag days for the current year. The lead and lag days shall be calculated in such a manner as to permit the use of the lead and lag days for the proposed test year state income tax amount at the present and claimed rates of return;
- (f) Taxes Other Than Income Taxes. The consultant shall separately identify the lead and lag days for each type of other taxes to which Fitchburg is subject. This information shall be quantified separately for the electric and gas divisions. These taxes may include franchise taxes, payroll related taxes such as FICA, FUTA, and SUTA, ad valorem taxes, sales taxes, user fees, royalties, and regulatory assessments. The consultant will calculate the lead and lag days for each of these other taxes using both actual tax payments and scheduled tax payment dates, if applicable, and will render an opinion regarding the reasonableness of each methodology. With respect to tax payments relating to out-of-period adjustments, the consultant will provide a written narrative addressing the reasonableness of including such out-of-period adjustments in the determination of the lead and lag days for the current year. For those other taxes that are revenue related, the lead and lag days shall be calculated in such a manner as to permit the use of the lead and lag days for a proposed test year other tax amounts at both the present and claimed rates of return;
- (g) Interest on Long-Term Debt. The consultant shall compute the number of leading or lagging days relating to scheduled payments of interest on outstanding issuances of long-term debt. In addition, the consultant shall provide a written narrative addressing the reasonableness of including the leading and/or lagging days on interest on long-term debt in the development of cash working capital.
- (h) Preferred Dividends. The consultant shall compute the number of leading or lagging days relating to dividends paid on preferred stock. Further, the consultant shall provide a written narrative addressing the reasonableness of including the leading or lagging days on preferred dividends in the development of cash working capital.

## 2.8 Development of Cash Working Capital Amount

For each cash working capital component described above for both the electric and gas divisions, the consultant shall determine the number of days of leading or lagging expenses and shall identify total test year adjusted dollar balances of each such component for purposes of calculating the adjusted test year dollars subject to such lead or lag. The Company will provide to the consultant the number of days of lagging revenues and the number of leading days for purchased power and the cost of gas. Using these amounts, the consultant will calculate the reasonable and necessary level of cash working capital that the Company can support in its proposed electric and gas rate bases. The consultant shall also offer an opinion regarding the appropriateness of including within cash working capital cost components that are not subject to cash flow leads or lags, but which may be reasonably included in cash working capital. Such non-cash flow cash working capital components may include average daily bank balances, working funds, deferred debits, and deferred credits.

The Company recognizes that the party undertaking this engagement must employ data that is in the exclusive possession of the Company. The Company affirms that it will endeavor to provide to the successful vendor in a timely manner copies of requested materials, invoices, vouchers, and other such information that is reasonably necessary to undertake a project of this nature. However, the consultant will similarly affirm that it will employ its best efforts to employ commonly available information and will utilize efficient sampling procedures to reduce the level of involvement of Company personnel to the extent practical. The vendor is expected to maintain the confidentiality of the Company's data and may be requested to execute a confidentiality agreement.

## 3.0 Deliverables

The consultant shall deliver to Fitchburg ten (10) copies of a detailed report, including an executive summary, of the procedures employed and the results obtained in conducting the electric and gas division lead-lag studies. The report shall identify separately for the electric and gas divisions (a) the days lead or lag for each component of cash working capital as identified in Section 2.7 above, (b) the dollars to which such leading or lagging days apply, and (c) the calculation of cash working capital. In addition, the consultant shall provide to Fitchburg all supporting workpapers, files, electronic media, and other materials utilized or otherwise relied upon in the conduct of these lead-lag studies. Furthermore, if authorized in the second phase of this project, the consultant shall be responsible for preparing responses to requests for information submitted by other parties as assigned to the consultant by the Company. At the sole discretion of the Company, the consultant may also be requested to prepare and present testimony and exhibits on behalf of the Company in a regulatory



proceeding in which the lead-lag study is employed in the third phase of this project. Such responses to requests for information and testimony and exhibits are not part of this RFP and the costs of such should not be included herein by the bidders.